



**A STUDY OF  
ALIGARH ZILA SAHAKARI BANK LTD  
ALIGARH**

**DISSERTATION**

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT  
FOR THE AWARD OF

**Post-Graduate Diploma**

**IN**

**Cooperation and Rural Development**

**BY**

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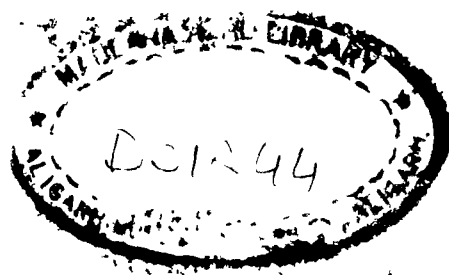
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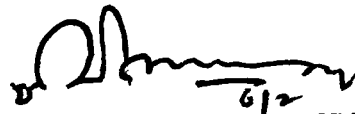


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This is to certify that Mr. Pradeep Kumar  
has completed his Dissertation entitled "A STUDY  
OF ALIGARH ZILA SAHAKARI BANK LIMITED, ALIGARH"  
under my supervision and guidance.

I am satisfied with the efforts made by him  
in this connection.

  
( DR. MAHFOOZUR RAHMAN )  
Supervisor

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ALIGARH

  
( PRADEEP KUMAR )

DATED: 6/2

P R E F A C E

The first chapter deals with the introduction. In this chapter I have given in details the meaning of cooperation, classification of cooperative Societies, significance of cooperation and the Cooperative Credit structure in general.

The second chapter deals with the origin and growth of credit movement in Aligarh district. In this chapter the detailed study of the Cooperative Credit before and after independence has been given.

The third chapter is devoted towards the management pattern of Aligarh Zila Sahakari Bank Limited, Aligarh. I have discussed in details about the General Body, Annual General Meetings, Other General Meetings, Board of Directors, Executive Committee, functions and powers of Chairman and Vice Chairman and Suspension and Supersession of the Committee of management people.

In fourth chapter the financial resources of Aligarh Zila Sahakari Bank Limited Aligarh have been discussed.

The last chapter deals with the loan operation of Aligarh Zila Sahakari Bank Limited, Aligarh.

Emphasis should be given towards timely audit and supervision of Aligarh Zila Sahakari Bank Limited, Aligarh.

## CHAPTER -I

### INTRODUCTION

#### Meaning of Cooperation:

Generally speaking, cooperation means living, thinking, and working together. In this technical sense it denotes a special method of doing business. In its former sense, co-operation existed ever before the existence of man. In fact, cooperation is much older than the man himself.

A universal meaning and theory of cooperation or cooperative society is, therefore, difficult to find, this subject is still one of the most heated topics of discussion in national and international cooperative circles. Cooperators, without caring for a universal theory have been adopting the movement in their own way to suit the size and magnitude of their problems, in accordance with their environments. If there is any theory, then as the Madagan Committee has suggested that, "the theory of cooperation is very briefly that an isolated and powerless individual can, by association with others, and by normal development and mutual support obtain in his own degree X The material advantages, available to the wealthy or powerful persons, and thereby develops himself to the fullest extent of the natural abilities.<sup>1</sup>

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1. Report, 1915, p. 4.



### Definition of Cooperation

Prof. Lamberts' definition has received the widest recognition. It has been supported by cooperative leaders throughout the world. Lambert says that, 'a cooperative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy and directly intended to serve both own members and community as a whole.'<sup>1</sup>

### Classification of Cooperative Societies

Since its inception the cooperative movement has diversified its activities and has multiplied forms. Various attempts have been made to classify the different types of cooperative societies. The main classifications are as under:

(1) From the functional point of view the societies have been classified as : (a) productive; and (b) auxiliary. In this group the societies dealing with the supply of goods, credit, housing and other services marketing of goods and investment of surplus funds are included.

(2) From the legal point of view the societies have been classified into: (a) unregistered; and (b) registered. There

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1. Paul Lambert, The Social Philosophy of Cooperation.

are three broad types of ~~societies~~ which are included under this group, namely (i) ~~societies~~ with unlimited liability; (ii) societies with multiple liability; (iii) societies with limited liability.

(3) According to the area of operation societies have been divided into urban and rural.

(4) According to the level of operation there are two classifications. In the first classification societies have been divided into primary, secondary, territory and apex. In the second classification there are local, regional, national, international cooperative societies.

(5) According to the sector of the economy the societies are engaged in: (a) agriculture; (b) small industries; (c) retail and wholesale trade; and (d) service trade.

(6) According to the economic status of the members, the cooperative societies are classified into: (a) producers, i.e. farmers, traders, and craftsmen; (b) consumers; and (c) workers.

(7) Apart from these general classifications, Prof. C.R. Fay has given the following classifications:

1. Cooperative banks or credit societies;
2. Cooperative agricultural societies;

3. Cooperative workers' societies; and
4. Cooperative stores.

Prof. Nash has classified cooperative societies into three groups, namely; (a) resource societies; (b) production societies; and (c) consumers' societies. In first group, are included all those societies which extend a helping hand to the members in their individual ~~enterprise~~<sup>e</sup> by producing for them resources of various kinds like seed, manure, implements or credit. In the second group, societies which undertake collective production are included. In the last group all kinds of consumers, stores and housing societies are included. The Reserve Bank of India has adopted a very elaborate classification as under:

- (i) Cooperative banking structure which includes agricultural credit societies, large sized societies, rural banks, grain banks, central cooperative banks, state cooperative banks, central land mortgage bank, primary land mortgage banks and urban credit.
- (ii) Cooperation as an aid to production, which includes agriculture and allied production and industrial production.
- (iii) Cooperative marketing including primary marketing societies. Central marketing societies, state mortgage societies, national agricultural cooperative marketing federation, sugar-cane supply societies, processing societies and cooperative sugar factories.

(iv) Other forms of cooperation namely, consumers stores, housing societies, workers, cooperatives. Women's cooperatives, displaced persons, Cooperative societies and insurance Cooperative.

### Significance of Cooperation

Cooperation as an instrument for removing disparities in the distribution of wealth has proved very effective, because profits earned by the societies are distributed among all the members not on the basis of use they have made of the society. Secondly, all members enjoy equal opportunities. Unlike capitalistic system, in the cooperative system the capital is jointly owned. It has been very well pointed out that 'Cooperatives can contribute to reduction of the disparities of wealth or at any rate, or preventing of an aggravation of the disparities of wealth. To this end, cooperatives can help reduce the chain of intermediaries between producers and consumers and can facilitate a broad based ownership of means of production'.

### Cooperative Credit

#### Classification of Credit:

Of the various kinds of cooperative institutions, the credit organisations are the most important not only

because they were the first to be established but also because it is their strength and financial stability that made it possible for other forms of cooperation to be introduced successfully. These credit organisation are of the kinds, viz. short-term and medium-term credit institutions and long-term credit institutions of accordingly the credits provided by these organisations have been classified. Credit can be classified according to the purpose and the period it / is advanced. The period-wise classification consists of short, medium and long-term loans.

Short-term credit is made available for a period of 12 to 15 months, for meeting the cost of seasonal agricultural operations, generally in the beginning of the season but utilised as and when required e.g. to purchase seeds, implements, manure of foolder etc. It is repayable usually after the harvest is over.

Medium-term loans are granted for periods exceeding 15 months but not exceeding 5 years, for purchase of bullocks, implements, reclamation of land, sinking of ordinary wells and repairs of old ones, purchase of goats etc.

Long-term loans are granted for a period exceeding 5 years. It is to make the permanent improvement in land, permanent fencing and buildings, for reclamation and constructing

of ~~walls~~. No upper limit is fixed but generally it does not extend beyond years.

While the short-term and medium-term loans are disposed by ordinary credit societies, the long-term loans are issued by the cooperative Land Development Banks. The short-term loans are usually given a personal security on the basis of agricultural production and repaying capacity which are not otherwise secured. Whereas the medium-term loans are generally secured by mortgage of land.

### Credit Structure

The structure of Cooperative Credit in India consists of 3 tiers, namely, the primary credit societies at the base (or village level), the Central Cooperative Banks in the middle at the district level and the Apex or the State Cooperative Bank at the State level. In a tabular form, the Credit structure can be explained as under:

### Cooperative Credit Movement

Short and Medium term through  
State Cooperative Banks in  
each State.

Long-term Credit through  
Central Land Development  
Banks.

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1. See Appendix.

Central Cooperative Banks at	Primary Land Development
District Level Unions at	Banks.
Intermediary Level Primary	
Credit Societies in the	
Village.	

### Primary Societies

The area of operation of a society is restricted generally to a village because the liability of society is unlimited. The individuals are only the members of the society. A member should be a matured person, should possess good character and should be resident of the village. Moreover, he should not be a member of any other society except a land mortgage bank. Nevertheless, he should not be a bankrupt or an applicant to be so adjudicated. The primary function of these societies is the creation of funds to be lent to the members.

### Central Cooperative Banks and Unions

The original scheme of cooperation in India did not contemplate the formation of federal or secondary institutions but soon after the cooperative Act 1904(11). The need of such institution was badly felt and consequently the Central

Cooperative Banks at C.P.P. Berar were started. Primary societies organise themselves into Banking Unions. The chief feature of this type of financing bank was that it was composed primarily of societies financed by it though individuals also were admitted as share holders but member societies had a substantial voice in the management of the bank.

These societies also organise themselves into central cooperative banks which have societies as well as individuals as their members and as such called mixed type institutions. The area of operation of a Central Bank usually covers a revenue district. There have been, generally, more than one bank and union in a district but we feel it feasible to amalgamate them into one district Bank in order to make them viable units.

#### State Cooperative Banks

With the establishment of Central Banks, it was found that certain banks were not able to secure sufficient capital from the money market to fulfil the needs of their constituent societies. Moreover, the Central Banks also required to be supervised by some head institution. It was to take up all these functions that the need for an apex central bank arose and the Maclagan Committee (1914) strongly advocated for such an apex institution in each major province. The difference



between apex banks and the central banks is one of degree and not of kind. It acts as banker to the Central Bank in the districts. It forms the connecting link between the money market and the cooperative movement. Moreover, it ensures coordination of efforts and uniformity of banking policy as between the different central banks.

### Land Development Banks

The usual agencies for long-term cooperative credit for agriculture are the primary land development banks (previously known as land mortgage banks) at the base and the central land development bank, which is a federation of primary banks, at the state level. The source of Central Cooperative land Development Banks consists of share capital revenue and debentures. Most of these banks have received share contribution from state government which in the cost of institutions newly set up is often substantially larger than the share capital received from primary banks and individuals.

### Defects and Difficulties

#### (a) Structural Defects

1. The framework of the accepted policy at the Central Bank level has been to have one bank in each district as an

economic unity so that the bank may act as a real cooperative leader at the district level. Considerable headulay has been made in this respect in most state though in one state the position continues to be unsatisfactory.

2. A major structural requirement for the satisfactory working of the central cooperative bank is that they should have their own staff to supervise the working of the primary societies affiliated to them.

(b) Internal Defects

1. An important defect in the working of the central cooperative banks is that they have failed to augment the internal resources to meet the growing needs of the affiliated societies. Though there has been a substantial rise in the deposits and owned funds of these banks, they have not been sufficient to meet to growing strength of members of the cooperative societies.

2. Though the banking shareholdings to borrowings has been accepted in principle and implemented generally, there are still several instances in which such linking has not been enforced.

(c) Defects in Loan Policies and Procedures

The main defects in this connection are:

- (i) there is not adequate arrangement for effective supervision and utilization of the loans.
- (ii) loans in instalment and kind are not given.
- (iii) there is no linking of loans with growing and harvesting seasons and hence loans are given throughout the year.
- (iv) the bank have not taken steps to link credit with marketing.
- (d) Delay in sanction of loans

(e) Defects in Management

1. One very important defect in the management of those banks is that in some of them there are still large number of representation of individuals on the board of directors.
2. The management of these banks is still conducted by personnel who are neither trained nor properly qualified. They are also not well numerated. So far no integrated cadre of the services of the cooperative banks has been created.
3. It has been noticed the board of directors of the central cooperative banks, being busy politicians do not take much interest in the affairs of the banks. Some of the banks have become ~~(not)~~ beds of politics.

4. There is not systematic system of recruitment promotions and increments for the staff of the banks.

...

## CHAPTER - II

### ORIGIN AND GROWTH OF CREDIT MOVEMENT IN ALIGARH DISTRICT

In the early stages of the Cooperative Movement, there were no separate Central Financing Agencies for short-term rural credit. In fact, the Legislation of 1904 made provision for the starting of only two types of cooperative societies i.e. Rural Credit and Urban Credit Societies. It was believed that the Rural Credit Societies would be able to carry on their work by attracting deposits from members and by means of loan from government. Moreover, it was considered that more financial help was needed for Rural Societies and the Urban Cooperative Banks would be able to finance their needs out of their surplus funds. In the beginning, no difficulty was experienced by Rural Credit Societies. But, after a short time, it was realised that this arrangement was neither satisfactory nor adequate to meet the growing demands of Rural Credit Societies. The Cooperative Societies Act, 1904 was amended in 1912 so as to provide for the registration of Central Societies composed of primary societies as members. Consequently, attempts were made to start Central Cooperative

Banks in the State. The desire of various districts to have local banks of their own received a great stimulus after 1916 as a consequence of the recommendation of MacLagan Committee.

#### Birth of Cooperative Credit Movement in Aligarh District And its Early Progress

The cooperative credit movement came into being in Aligarh District in the form of Cooperative Credit Primary Societies. The first Primary Credit Society was established in Lakhnau in Hathras Tehsil in Aligarh District and was registered as 'Lakhnau Cooperative Primary Credit Society' on October 31, 1906. Thereafter, the cooperative societies were organised in other tehsils of the district. 'Jodhpur Cooperative Credit Primary Society' was registered on September 27, 1911 in Hathras followed by the third society registered on October 8, 1912 as 'Purakalan Cooperative Primary Credit Society'. Thus, upto 1915 about 15 cooperative societies were registered with a membership of 250.

The District Cooperative Bank Limited, Aligarh was registered at Aligarh on May 2, 1916 with registration No. 21, but it did not commence work during the year 1916.<sup>1</sup> Fourteen

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1. Annual Report on the Working of Cooperative Societies in the United Province of Agra & Oudh for the year 1915-16. Printed by the Superintendent, Government Press, United Province, Allahabad year 1915-16, p. 8.

societies were organised during the year 1916-17. During the year 1920-21 the District Cooperative Bank established nine societies and papers of three more societies were pending during the year. No society was liquidated during the period and their number increased to 57 in 1920-21.<sup>1</sup> As the number of societies affiliated to the Bank was not sufficiently large, it had to invest a large amount in outside Societies Collections were not good and arrears were heavy, being over 50 percent of the amount of the loan granted. At the end of the year, the number of individual members and of societies was forty and fifty seven respectively.

The District Cooperative Bank Limited, Aligarh showed some improvement during the year 1925-26. The bank organised fourteen societies, but the need for improving the quality of the older lot remained unattended.<sup>2</sup> The financial position of the bank had been sound though deposits figured rather too prominently in the working capital. For the year ended June 30, 1926, the number of individual members and of the societies were 47 and 84 respectively. During the period, the bank gave loans to societies to the tune of Rs. 86,516.<sup>3</sup>

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1. Ibid, Year 1920-21, p. VII.

2. Ibid, Year 1925-26, p. IX.

3. Ibid., p. 6A.

The bank occupied an important position when the 20th session of the United Province Cooperative Conference was held in February 1936. At the end of June 1936, the share capital of the bank was Rs. 7,908. Loans outstanding with primary societies was Rs. 97,357.<sup>1</sup>

#### Progress of Cooperative Credit Movement in Aligarh District After Independence

After independence, the general attitude of the government of India regarding Cooperative sector has been supporting nature. The Government recognised that cooperative sector could play a vital role in the complex and fascinating drama of economic and social welfare of the people, specially of weaker sections of the society. Thus, the Government throughout had a general policy to support and promote cooperative sector. In pursuance of its policy to promote cooperative sector, the Government has been extending its financial, moral and legitimate support. At the end of the year 1949-50, there were 55 individual members and 153 societies as member of the bank with State Government as a special member. Thus, total number of the members of the bank was 209. The share capital of the bank increased to Rs. 57,351 and deposits of the bank amounted to Rs. 2.45 lacs.<sup>2</sup>

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1. Ibid., Year 1935-36, pp. 14A - 15A.

2. Annual Report: Aligarh Zila Sahakari Bank Limited, Aligarh 1949-50, pp. 2-5.



In the year 1952-53, the number of individual members increased to 60, while the number of member societies increased to 252 with State Government as special member. The share capital of the bank increased to Rs. 84,538 and deposits amounted to Rs. 3.60 lacs.<sup>1</sup>

In the year 1955-56, the number of individual members was 52, while the number of societies increased to 358. Thus, the total number of the members of the bank was 419 including State Government as special member. The share capital of the bank increased to Rs. 1.38 lacs and the deposits of the bank increased to Rs. 4.32 lacs.

The overall position of the membership of the Aligarh Zila Sahakari Bank Limited, Aligarh upto the year 1955-56 is clear from the following table :

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1. Ibid., p. 3-6.

Table -2.1

Table Showing The Membership of Aligarh  
Zila Sahakari Bank Limited, Aligarh.

Year	Special Members (State Govt)	Ordinary Members (Coo.Soc.)	Individual Members	Total
1920-21	-	57	40	97
1925-26	-	87	47	134
1928-29	-	71	56	127
1949-50	1	153	55	209
1955-56	1	356	62	419

Source: Compiled on the basis of Annual Reports on the  
 Working of Cooperative Societies in The United  
 Province of Agra & Oudh, for the relevant years.

The position of the working capital of the Aligarh  
 Zila Sahakari Bank Limited, Aligarh during this period  
 can be seen in Table 2.2.

Table 2.2Table showing Increase in the working capital of Aligarh

<u>Zila Sahakari Bank Limited, Aligarh</u>					(Rs. in lacs)
Year	Share capital	Reserve	Deposits	Loans	Working capital
1979-80	90.24	12.27	184.11	313.79	600.41
1980-81	94.08	14.20	220.77	383.07	712.12
1981-82	123.84	16.97	232.93	619.67	992.91
1982-83	130.29	19.919	311.70	675.77	1136.95
1983-84	128.80	19.20	344.21	799.25	1291.46
1984-85	143.63	19.20	422.72	900.22	1485.77
1985-86	146.76	19.21	457.62	933.21	1556.80
1986-87	163.75	19.24	569.43	817.85	1570.27
1987-88	185.27	19.26	658.31	1126.24	1989.08

Source : By Courtesy of the Accountant, Aligarh Zila Sahakari, Bank Limited, Aligarh.

#### Area of Operation of the Bank

The area of operation of the Aligarh Zila Sahakari Bank Limited, Aligarh is confined to the whole of Aligarh District, comprising six tehsils viz. Khair, Iglas, Hathras, Sikandra Rao, Koil and Atrauli.<sup>1</sup>

1. Published in U.P.Govt. Gazettee, Extra, vide Notification No. 9907-C/XII-CA-25(12)-68, dated 31.12.1968, pp. 103-199.

Membership of the Bank

The following can be the members of the Bank:

- (1) Societies (as an ordinary members)
- (2) State Government (as a special member)

A Cooperative bank, may, in addition to ordinary members, have the following kinds of members:

- A. Sympathiser members; and
- B. Nominal members.

- a. According to Rule 38 of U.P. Cooperative Societies Rules, 1968 every application for admission to the membership (as an ordinary member) of a cooperative bank shall be made to the secretary who shall place such application as soon as may be possible before the competent authority under the bye-laws of the bank to take decision on the question of admission to the membership of the bank.
- b. The competent authority shall consider the application for admission to membership and take final decision either admitting or refusing to admit the applicant to the membership of the bank. Except when it is not possible due to some unavoidable reasons, such decision shall be taken:

- (i) in the case of nominal or associate membership within 15 days of the receipt of the application in the society, and
  - (ii) in any other case, within thirty-five days of the receipt of the application in the bank. The decision shall be communicated to the applicant within seven days of the date of the decision.
- c. If the decision on the application for admission to membership is not taken and communicated to the applicant within:
  - (i) thirty days of the receipt of application in the case of nominal or associate membership, and
  - (ii) sixty days of the receipt of application in the case of ordinary or sympathiser membership, the application shall be deemed to have been rejected.
- d.
  - (i) a person may be admitted as a sympathiser member if he is genuinely interested in the promotion of the object of the bank or the welfare of the members.
  - (ii) the number of sympathiser members in the bank shall at no time exceed five percent of the

total number of ordinary members and the number of sympathiser members on the committee of management shall neither exceed two nor ten per cent of their total membership in the bank nor even one fifth of the total number of members on the committee of management.

- e. (i) a person with whom the cooperative bank has or proposes to have business dealing may be admitted as a nominal member.
- (ii) a nominal member shall have no right to share in the profits of the bank nor shall be eligible for the membership of the committee of management.
- (iii) generally this appointment will be for three years. But again after receiving one rupee, the authority authorised by the Board of Directors may extend it again for three years.

A nominal member is appointed only for a particular transaction and after that, his membership will be terminated automatically.

A member can be expelled from the membership of the bank:

- (i) if he has misappropriated any funds or property of the bank or has caused damage to the property of the bank,
- (ii) if he has caused detriment to the interest of the bank by a breach of its bye-laws.
- (iii) where a declaration made by a member in pursuance of any provisions of the bye-laws of the bank is found to be either false or, there is suppression of any material information, in the declaration and such falsehood or suppression has enabled the member to get under hand benefit from the bank, or has put the bank to economic or a financial loss or other difficulties.

The position of membership can be seen in the tables 2.3.

Table 2.3

Showing the Number of Membership of Aligarh Zila  
Sahakari Bank Limited, Aligarh.

Years	State	Membership		Total
		Ordinary (Cooperative Societies)	Individual Preference share holders	
1956-57	1	635	62	698
1957-58	1	296	63	360
1960-61	1	537	68	606
1965-66	1	601	72	674
1969-70	1	629	72	702
1970-71	1	635	72	708
1971-72	1	650	28	679
1972-73	1	640	28	669
1974-75	1	562.	28	591
1975-76	1	414	28	443
1976-77	1	408	28	437
1977-78	1	379	27	407
1978-79	1	371	27	399
1979-80	1	364	27	392
1980-81	1	369	27	397
1981-82	1	380	27	408
1982-83	1	410	27	438
1983-84	1	417	27	445
1984-85	1	421	27	449
1985-86	1	411	27	439
			27	420
			27	442

stant, Aligarh Zila Sahakari



The table 2.3 indicates that at the beginning of the second five year plan, (1956-57 ) the membership of the bank was as high as 698, but in the next year, i.e. in 1957-58, the number of cooperative societies came down from 635 to 296. with the result that the total number of membership came down to 360. The main cause for such steep decline was the merger of small societies into big one on the basis of recommendation of All India Credit Survey Report. After that the number of ordinary members (cooperative societies) went on increasing till 1971-72 when it stood at 650. After that, there was gradual decline in such membership. The individual membership was satisfactory upto 1970-71 when it was 72, but it declined to 28 in 1971-72, there was a decline both in individual as well as ordinary membership. In 1978-79, the individual membership came down to 27 and ordinary membership to 371 with the result that total membership was also reduced to 399. In 1979-80, the ordinary membership was further reduced to 364, which was the lowest after 1957-58. However, after it there has been a trend of continuous increase in the ordinary membership which reached to 417 in 1983.84 making the total membership as 445.

In present means 1987-88 the number of ordinary membership (cooperative Societies) and individual membership are 415 and 27 respectively the total membership as 442. It may be mentioned that the individual membership has been constant since 1977-78 at a figure of 27 only.

#### Liability of Members

The liability of members of the Bank is limited to the nominal value of share held by them.



### CHAPTER - III

#### MANAGEMENT PATTERN OF ALIGARH ZILA SAHAKARI BANK LIMITED, ALIGARH

The registered office of the 'Aligarh Zila Sahakari Bank Limited, Aligarh' is situated at Sarai Hakim Aligarh, having fourteen branches i.e. one branch each at Akrabad, Aligarh, Atrauli, Chandausi, Chharra, Gonda, Hathras, Iglas, Jattari, Kasimpur, Khair, Furdil Nagar, Sasni and Sikandra Rao.

According to bye-laws of the Aligarh Zila Sahakari Limited, Aligarh, 'the management of the functions of the bank will be in the hands of the following bodies:

- A- General Body.
- B- Board of Directors.
- C- Executive Committee.
- D- Chairman/Vice-Chairman.
- E- Secretary.
- F- Any other sub-committee appointed by the committee of management'.<sup>1</sup>

#### A- General Body :

The general body consists of the following :

- (1) Nominee of the Government in the committee of management under Section 34 of the societies act 1965.<sup>2</sup>

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1- Quoted from the bye-laws of the Bank registered under the Cooperative Societies Act 1965 as amended on 25-5-70, pp.3-6.  
 2- Substituted by U.P. Act No. 40 of 1976 dated 20-11-76, with effect from 17-1-72.

- (2) Except primary agriculture loan societies, one representative from each society.
- (3) On the basis of membership on 30th June of last year, one or more representative of the following primary agriculture loan societies.

If the number of membership of the society is less than 200, then one representative and if the number of membership of the society is 200 or more, but less than 400, then two representative, and if the number of membership of the society is 400 or more but less than 600, then three representative, and if the number of membership of the society is 600 or more then four representative.

- (4) All sympathiser members if their number is fifty or less. If their number is more than 50, then one representative for each five members.

The following will be the two types of General Meetings

(I) Annual General Meeting; and (II) Other General Meeting:

(I) Annual General Meeting

(a) The Bank shall hold its annual general meeting upto 31st December of each year. Such meeting shall be held

for submitting the annual returns and accounts, whether they have been audited or not. The Registrar may permit the bank to hold its annual general meeting after 31st December and in that case, the Annual General Meeting shall be held within the period so extended. The following business will be done in the Annual General Meeting :

- (i) approval of the programme of the activities of the bank prepared by the committee of management for the ensuing cooperative year;
- (ii) election, if any, of the members of the committee of management in accordance with the provisions of the rules and bye-laws of the society; (if due),
- (iii) consideration of the balance sheet and the annual report for previous cooperative year (July-June) unless the audit has not been completed (within the period specified);
- (iv) consideration in the prescribed manner of the audit certificate and the audit report for previous year according to rule 92 of the U.P. Cooperative Societies Rules 1968, unless the audit has not been completed within the prescribed period;
- (v) fixation of the maximum liability of the bank for the ensuing cooperative year;

- (vi) disposal of the net profit;
- (vii) consideration of the budget for the next cooperative year; and
- (viii) consideration of the any matter as may be brought before it in accordance with the bye-laws with due permission of the chair.

(b) Notwithstanding anything contained in U.P. Cooperative Societies Act, 1965, Section 31, it shall be the duty of the Secretary, and in the absence of the secretary, of the Chairman of the committee of management, to call the annual general meeting in accordance with the provisions of the sub-section (1), failing which the Registrar, or any person duly authorised by him on his behalf may call the annual general meeting.

## II. Other General Meeting:

(a) The committee of management may call this meeting as often as may be necessary for the transaction of business of the bank (to be called ordinary general meeting).

(b) The committee of management shall call a general meeting of the general body of the society to be called extra-

ordinary general meeting within one month after the receipt of a requisition in writing from the Registrar or from at least one fifth of the members of the general body of the society. In default of the committee of management to call a meeting, the Registrar or any person duly authorised by him in this behalf shall have the power to call the extraordinary general meeting at such place and time as he may direct.

#### Quorum for the Meeting

The quorum for the general meeting will be one fifth of the general body members or fifty members whichever is less.

#### B. Board of Directors

The management of the Bank vests in the Board of Directors. The following constitute the Board of Directors:

1. Two directors nominated by the State Government under section 34 U.P. Cooperative Societies Act, 1965, one of whom shall be a Government servant.
2. Twelve directors from the delegates of the societies in which two directors will be from each block (seventeen blocks have been constituted in six constituencies for election).

3. According to rule 393, of U.P. Cooperative Societies Rules, 1968,<sup>1</sup> the condition is that the number of members of the Board of Directors should not exceed 15.

#### Term of Office of the Board of Directors

The term of the Office of the Board of Directors of the Bank is three cooperative years including the cooperative year (July to June) of the election. (But the elected members continue to hold office till their successors are elected or nominated under the provisions of the Act or the Rules. In this connection, it is to be noted that for the purpose of determination of the term of an elected member, the cooperative year during the course of which the elections are held is counted as full year irrespective of the period left after such election in that cooperative year).

Further no person is eligible to be elected as a member of the Board of Directors of the Bank after he has held such office in the Bank during two consecutive terms, whether in full or in part. If any casual vacancy occurs amongst elected members of the Board of Directors of the

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1. Substituted by Notification No. 3815-C-1-77-7(5)-1977 dated 24.12.1977.



Bank, it is filled up by cooption, by the remaining members of the Board of Directors, from amongst those who are qualified for the membership of the Board of Directors.

#### Power and Duties of the Board of Directors

The powers and duties of the Board of Directors are:

- (1) To control the paid staff, including their appointment, suspension, punishment and removal.
- (2) Raise funds at terms settled by them, sanction loans and effect recoveries, if necessary, through arbitration.
- (3) To convene general meetings.
- (4) Sanction contingent expenditure.
- (5) Generally to supervise and manage the affairs of the Bank. and
- (6) Fix credit limits of the societies on the recommendation of the Registrar.

#### Quorum for the Board of Directors Meeting

The quorum of the Board of Directors meeting shall be five directors. At least seven days notice is necessary for Board of Directors meeting. But, in special circumstances, the meeting can be called at a less time's notice.

### C. Executive Committee

The bye-laws of the Bank also provide for the constitution of the Executive Committee consisting of the 5 persons including President, Vice-President, two elected Directors and one of the Director from amongst the Directors nominated by the Uttar Pradesh Government.

The members of the Committee hold office till the election of the new members for the next year. A person does not remain the member of the Executive Committee if he is not a member of the Board of Directors. Any casual vacancy may be filled by the Directors from amongst the elected or nominated members as the case may be.

Besides admitting the ordinary members to the membership of the Bank, the Executive Committee performs such functions and enjoys such powers as are entrusted to it by the Board of Directors of the Bank.

### Quorum for the Executive Committee Meeting

The quorum of the meeting of the Executive Committee consists of three members. In terms of the bye-laws the Board is required to meet at least once in two months.

#### D. Chairman/Vice-Chairman

Under the bye-laws of the Bank, a Chairman is elected from amongst the members of the Board of Directors. As soon as possible after the declaration of the result of election of the members of the Board of Directors, the Secretary of the Bank convene the first meeting of the Board of Directors for election of Chairman and Vice-Chairman. Such a meeting is presided over by the Election Officer.

The Chairman is the chief controlling and supervising officer of the Bank and is responsible for the control, supervision and guidance of the affairs and business of the Bank. The Chairman presides over the meeting of the General Body, the Board of Director and the Executive Committee and exercises all the powers of the Board in an emergency.

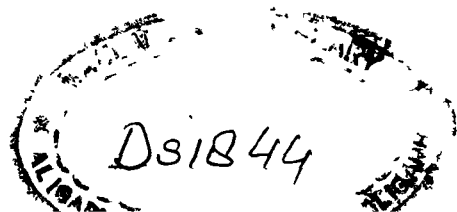
The Vice-Chairman presides, in the absence of the Chairman, over the meetings of the General Body, Board of Directors and the Executive Committee. He exercises such powers and performs such duties as are delegated to him in writing by the Chairman subject to the bye-laws of the Bank.

#### E. Secretary

The Secretary shall be the Chief Executive Officer of the society and, subject to such control and supervision of

the Chairman and the Committee of Management as may be provided in the rules or the bye-laws of the society, shall:

- (i) be responsible for the sound management of the business of the society and its efficient administration;
- (ii) carry on the authorised and normal business of the society;
- (iii) subject to the provisions of the bye-laws of the society, operate its accounts;
- (iv) sign and authenticate all documents for and on behalf of the society;
- (v) be responsible for the proper maintenance of various books and records of the society and for the correct preparation and timely submission of periodical statements and returns in accordance with this act, the rules, the bye-laws and the instructions of the Registrar or the State Government;
- (vi) convene meetings of the general body, the committee of management and any sub-committee constituted by the committee of management and maintain proper records of such meetings; and



- (vii) perform such other duties and exercise such other powers as may be imposed or conferred on him under the rules or the bye-laws of the society.

Suspension and Supercession of the Committee of Management

Aligarh Zila Sahakari Bank Limited, Aligarh was served a show cause notice No. 11401-15/ACT dated 31.3.81 under Section 33(1) of the U.P. Cooperative Societies Act, 1965, and on account of not receiving satisfactory answer from the bank, the management was suspended on several grounds some of which were as follows :

1. Due to loose and ineffective control, the bank is not able to submit the Balance Sheet and other statements for the year 1979-80. It is also not taking any steps against the defaulting employees.
2. The services of Mr. N.C. Dubey were retained even after his retirement which was irregular and unconstitutional.
3. Audit objections were not removed and proper steps were not taken against the irregularities that had been pointed out.
4. Short-term loans were not distributed in accordance with circular dated 24.9.1980 of the Registrar U.P.

Cooperative Societies which affected the capability and loan business of the bank.

5. Liquid assets were not maintained as per Banking Regulation Act which affected the interest of the bank as well as of the depositors.
6. Bank was not able to open branches in every block.
7. The loan granted by the Government to the bank free of interest was not utilised under the Integrated Rural Development Programme.
8. Bank could not consumer the ammount sanctioned under short-term loan for the year 1980.
9. Proper action was not taken against the staff for allowing irregular overdrafts to the extent of Rs.36.07 lacs during the year 1979-80.
10. Steps were not taken against employees fund guilty of embezzlement and financial irregularities.
11. Proper action was not taken against the misuse of Jeep.
12. In spite of protest note, rules were not framed regarding the use of guest house and the bank was put to loss due to its use without changing any rent.

13. Bonus was given to employees in excess of the statutory limit and the amount paid in excess was not recovered.

14. Appointing employees in excess of the limit prescribed by the Registrar, U.P. Cooperative Societies.

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CHAPTER - IVFINANCIAL RESOURCES OF ALIGARH ZILA SAHAKARI  
BANK LIMITED, ALIGARH

The sources for procurement of funds in the bank are limited. The chief among the possible and permitting sources are share capital, deposits and borrowings. These sources play very important role in building up the working capital of the Bank. But each of these has its advantages and disadvantages in terms of cost, risk, availability and external restrictions. In the broadest sense, the main problem of financial management is to obtain maximum funds at the lowest cost. The role of decision making does not end with the selection of best alternatives, but goes further to decide and determine the best methods to be used for procurement. Among popular methods in use by the bank as sources of funds are the mobilisation of deposits, increasing the membership resulting in increasing the share capital and owned funds and borrowings from higher agencies. The most appropriate method is one which may permit the assured inflow of funds at cheapest and lowest cost. Although, the bank is geared up to mobilise local deposits and to minimise the



dependence on outside borrowings, the progress in this direction till now is far from satisfactory.

### 1. Owned Funds

Share capital is an important source of funds. As it has no direct cost, it should be regularly raised. It can be raised by an adequate increase in lendings to the affiliated societies. Thus, the enrolment of new members to these societies and investment of more shares with the bank for higher credit limit can be a regular source of funds.

Owned funds include paid up share capital from members and also from State Government, if any, the statutory reserves and other funds and retained profits. Share capital in the bank plays a vital role, as it forms the base for the maximum borrowing power. To build up a strong financial structure of the bank, a handsome share capital is essential. To meet the increasing demand for agricultural credit and allied services it becomes still more significant to raise the share capital to the maximum.

### 2. Deposits

Deposits are another important source of funds to meet the short-term credit needs of the bank. One of the objectives

✓ of the cooperative form of organisation is also the mobilization of rural savings. The deposits enrich the internal resources and make the banks self reliant. The method for raising resources at minimum cost is to increase the deposits in current, saving and fixed accounts. Every effort should be made to mobilize deposits from members and non-members in order to decrease dependence on outside borrowings.

### 3. Borrowings

Borrowings form the most important source of fund flow. Borrowings are secured under prescribed rules as a credit limit from the U.P. Cooperative Bank, Lucknow and the Reserve Bank of India. As the Reserve Bank of India advances credit facilities to cooperative banks at a concessional rate of interest below 2 percent of the market rate, the borrowings from the Reserve Bank of India become still more important.

Table 4.1 shows the financial position of Aligarh Zila Sahakari Bank Limited, Aligarh with regard to owned funds, deposits and borrowings.

Table 4.1

Showing the Financial Position of Aligarh Zila Sahakari Bank Limited, Aligarh.

Year	Share Capital			Reserves & other funds			Borrowings	Working Capital
	State Govt.	Cooperative Society	Individual	Total	& other funds	& other Borrowing		
1979-80	21.00	69.51	0.12	90.24	12.27	184.11	158.70	445.32
1980-81	23.00	70.96	0.12	94.08	14.20	220.77	216.41	545.46
1981-82	48.00	75.22	0.12	123.34	16.97	232.93	417.05	790.29
1982-83	50.00	80.17	0.12	130.29	19.19	311.70	391.18	852.36
1983-84	44.00	84.66	0.12	128.80	19.20	344.21	458.59	950.80
1984-85	54.00	89.51	.12	143.63	19.20	422.72	525.21	1110.76
1985-86	54.00	91.64	0.12	146.76	19.21	457.62	587.96	1211.55
1986-87	54.00	109.63	0.12	163.75	19.24	569.43	589.87	1342.29
1987-88	74.00	111.15	0.12	185.27	19.26	658.31	719.27	1582.12

Source: By courtesy of the Accountant, Aligarh Zila Sahakari Bank Limited, Aligarh.

Chapter -VLOAN OPERATIONS OF ALIGARH ZILASAHAKARI BANK LIMITED, ALIGARH

It may be observed that one of the main objects of the establishment of the central bank is to act as a balancing centre of finance for the primary societies affiliated to them and to provide to them finance for financing the agriculturists. They get funds by way of deposits and borrowings from outside which must be repaid as and when required by the creditors. The bank must invest their funds in a manner which (dies) not endanger their safety, failing which, inspite of the fluid resources at their command, they will not be able to meet all their commitments.

'Do not lay all the eggs in the same basket' is an old adage and it is applicable to cooperative banking as well. While giving loans, the bank must avoid concentration of too many loans in a few societies. Too many loans should also not be given on the basis of the same kind of securities. As far as possible, there should be proper diffusion of loans which will insure physical distribution of risks in lending.

Loans to Societies and Individuals:

Aligarh Zila Sahakari Bank Limited, Aligarh advances loans both to individuals and to societies, though preference is given to the financing of societies within the area of its jurisdiction. The bank gives mainly short-term and medium-term loans to affiliated primary societies for purposes of financing agriculture. Short-term loans are given for financing seasonal, agricultural operations, while medium-term loans are given for purchase of cattle, installation of pump sets, digging of wells, etc. The short-term loans are for about nine months to one year and medium-term loans for one year to three year.

The loans are given on the security of pronotes executed by the authorised direction of the borrowing societies on their behalf. At the society level, the loans are secured by personal security of solvent members and mortgage of lands. That also serves as security for the banks loans to society. The bank also allows cash credit and overdraft accommodation to their constituent societies either on personal security of directors or on pledge of government securities and central and mortgage bank debentures. Sometimes

they also allow loans against fixed deposit receipts to members and non-members alike and charge a rate of interest which is slightly higher than that allowed on those deposits. The position of loans will become clear from Table 5.1 in the next page.

It can be read from the table 5.1 that the loans and advances given by the Aligarh Zila Sahakari Bank Limited, Aligarh which were just Rs. 315.79 lacs at the end of the year 1979-80 increased to Rs. 383.07 lacs at the end of the year 1980-81 i.e. At the end of year 1981-82 the amount increased to Rs. 619.77 lacs this is more than two time of 1979-80. During the 1982-83 amount also increased by 675.77 lacs. The amount in 1983-84 was 799.55 lacs. The amount increase year to year i.e. 1979-80 to 1987-88 and crossed the mark of Rs. 900.22 lacs in 1984-85, this mixed trend remained till the nationalisation of six commercial banks. In the year 1985-86, the amount increased to Rs.933.21 lacs while in the next year in 1986-87, it rose to Rs. 817.85 lacs. At the end of 1987-88, it jumped new hight of Rs. 1126.24 lacs.

Table 5.1Showing the Loans and Advances of Aligarh Zila Sahakari Bank Ltd. Aligarh

(Rs. in Lacs)

Years	Short Term Loan/ Cash Credit overdraft/ Mortgage Loan	Medium Term Loan	Total
1979-80	211.71	102.08	315.79
1980-81	268.39	114.68	383.07
1981-82	336.09	283.58	619.67
1982-83	436.79	238.98	675.77
1983-84	617.92	181.33	799.25
1984-85	763.05	137.17	900.22
1985-86	814.82	118.39	933.21
1986-87	706.67	111.18	817.85
1987-88	927.49	198.75	1126.24

Scourse: By courtesy of the Accountant, Aligarh Zila Sahakari Bank Limited, Aligarh.

### Investment of Funds:

Aligarh Zila Sahakari Bank Limited, Aligarh invest their surplus funds in deposits with the State Co-operative Bank, Lucknow. For this, no permission of the Registrar is required. But for the investments of funds in current accounts with other Central Cooperative Banks, they have to obtain the permission of the Registrar. For the investment of funds in current accounts in joint stock banks within the state, including branches of joint stock banks whose head offices are outside the state, permission of the Registrar is to be taken under the Act.

In this connection, it was suggested by the Standing Advisory Sub-Committee on Agricultural Credit of the Reserve Bank of India that the State Cooperative Bank should act as an apex bank and serve as a balancing centre for the cooperative movement of the state. As such, all Central Cooperative Banks in a state should first look for their requirements to the apex bank and the Reserve Bank should be approached only as the 'lender of the last resort'. But the facility of the Reserve Banks concessional finance tempts the central banks to by pass the apex cooperative



bank whose rates on finances from their own funds are generally higher. In the words of the Standing Advisory Sub-Committee, "This has the effect of relegating the apex bank to a subordinate position in the matter of supply of agricultural credit in the state and of shifting the Reserve Bank from the position of the 'lender of the last resort' to that of the most sought for lender".<sup>1</sup> The position of Investment stood as shown in Table 5.2 see on the next page.

The table 5.2 reveals that the overall investment of the bank is increasing except in the years from 1986-87 to 1987-88. Categorically, they are showing different trends. Investments in Central and state government securities have increased very rapidly. These investments were just Rs. 34.99 lacs in 1979-80. They decreased to Rs. 13.39 lacs in 1980-81 and to Rs. 10.14 lacs in 1981-82. After that, they went declining continued and came to down to Rs. 2.65 lacs in 1987-88. Investments in other trust securities showed declining trend from the very beginning and they came down to as low as figure as Rs. 0.08 lacs in 1987-88. The bank is investing its own funds in the share of cooperative societies also. The investment which was just Rs. 17.65 lacs in 1979-80 increased to Rs. 21.00 lacs in 1980-81 but it came up to Rs. 24.50 lacs in 1981-82.

1. Quoted from Principles and Practices of Cooperative Banking in India, B.N. Choubey, pp. 129-130.

Table 5.2

Showing the Investment of Aligarh Zila Sahakari Bank Ltd. Aligarh

(Rs. in Lacs)

Year	Central & State Govt. Securities	Other Trust Securi- ties	Share in Coop. Soci.	Other Inves- tment	Total
1979-80	13.09	1.99	17.65	2.26	34.99
1980-81	13.39	0.03	21.00	2.26	36.68
1981-82	10.14	0.03	24.50	2.26	36.93
1982-83	8.75	0.03	32.00	2.26	43.04
1983-84	8.48	0.03	42.55	3.26	54.32
1984-85	8.48	0.08	45.00	2.66	56.22
1985-86	8.30	0.08	45.00	2.66	56.04
1986-87	5.62	0.08	45.00	2.46	53.16
1987-88	2.65	0.08	50.00	2.06	54.79

Source: By courtesy of Accountant, Aligarh Zila Sahakari Bank Limited, Aligarh.

Thereafter, it started increasing and finally stood at Rs. 50.00 lacs in 1987-88. So far as other investments are concerned, they were merely Rs. 2.26 lacs in 1979-80 but they increased to Rs. 2.66 lacs in 1984-85 and decreased to Rs. 2.46 lacs in 1986-87 and also decreased 2.06 lacs in 1987-88.

Composition of Total Costs and Allocation of Expenditure  
Between Various Activities of Aligarh Zila Sahakari Bank  
Limited, Aligarh.

Cost in a cooperative bank may be located and classified as under:

- a) Interest cost on deposits and borrowings.
- b) Servicing cost on deposits and borrowings or establishment cost.
- c) Other expenditure towards cost of management.

Most important activities involving cost in a central cooperative bank are cost of capital borrowed and cost of establishment structure for providing services to the customers and members. The other important activity which involves heavy cost in expansion and opening of branches and supervision of credit. All resources if properly managed and wisely invested must result in some income.

### Interest Cost on Deposits and Borrowing:

Deposits can be classified as Time and Demand Liabilities. They are accepted at different rates of interest according to their nature and period of investment. Rates of interest on different deposits with effect from April 10, 1968 are give below:

<u>Nature of Deposits</u>	<u>Rate of Interest</u>
<u>Demand Deposits:</u>	
Current Account	0.5%
Saving Bank Account	5.5%

#### Time Deposits:

Fixed Deposit account (for 15 days to 61 months)  
4.5%. Recurring deposits account 4.5% to 11.5%

Borrowing have also their 'Interest Cost' which is given below.

From apex Bank for short and medium-term loans 7.25% .  
From the Reserve Bank of India for short and medium term loans.

Different interest rates on procurement of deposits and borrowings are direct cost on them and are termed as 'Interest Cost'.

### Servicing Cost on Deposits and Borrowings:

Accepting of deposits is a banking business and the accepting banker is liable to render certain services to the customers such as keeping funds ready for honouring withdrawals, collection of bills and cheques, remittance and maintenance of correct accounts, issuing of pass books and cheque books etc. To render all these services, cooperative bank have to employ extra hands and technical personnel for profitably employing the resources and supervising the flow of credit. The cost of employing staff and establishment for the performance of these activities and for the lending operations of the funds acquired are technically known as servicing charges or cost. If properly planned and organised, these costs can be considerably reduced. The table 5.3 shows different cost centres and actual expenses incurred by Aligarh Zila Sahakari Bank, Limited, Aligarh during the last few years.

It is evident from the study of the table 5.3 see on the next page, that in spite of an appreciable increase in the loans and advances, the profits of the bank could not be correspondingly increased due to a continuous rise in servicing cost which rose from Rs. 6056.6 thousand in 1979-80, Rs. 8374.4 thousand in 1980-81, Rs. 10552.7 thousand in 1981-82, Rs. 13676.5 thousand in 1982-83, Rs. 15844.0 thousand in 1983-84, Rs. 17770.2 thousand in 1984-85, Rs. 18889.3 thousand

TABLE 5.3

Showing different cost centres and actual expenses incurred by Aligarh Sahakari Bank Ltd. Aligarh

( Rs. In thousands )

Years	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
<u>Income</u>									
1. Interest and Discount	6056.6	8374.4	10552.7	13676.5	15844.0	17770.2	18889.3	20442.7	21078.7
2. Commission, Exchange & Brokerage	34.3	17.9	24.1	108.9	137.3	131.8	59.9	124.8	46.3
Total Income	6090.9	8392.3	10576.8	13785.4	15981.3	17902.0	18949.2	20567.5	21125.0
3. Subsidies & Donations	Nil	Nil	32.0	Nil	48.0	Nil	48.0	24.0	8.0
4. Other Receipts	205.5	264.0	112.7	425.8	305.9	359.1	437.6	460.0	75.8
Grand Total	6296.4	8656.3	10721.5	14211.2	16335.2	18261.1	19434.8	21051.5	21208.8
<u>Expenditure</u>									
1. Interest Paid on Deposits	4373.3	6343.6	7667.6	9903.0	11633.4	13530.0	1536.2	16743.5	17211.4
2. Salaries, Allowances & Provident Fund	1548.5	1699.7	1929.0	2275.0	3117.0	3216.4	3632.0	3841.5	3961.0
3. Other Expenses	68.3	107.6	111.3	308.6	303.3	344.2	418.5	561.7	658.0
Total Expenses	6990.1	8150.9	9707.9	12486.6	15053.7	17090.6	5586.7	21146.7	21830.4
Profit (+) / Loss (-)	-693.7	+505.4	+1013.6	+1724.6	+1281.5	+1170.5	+13848.1	-95.2	-621.6
Grand Total	6296.4	8656.3	10721.5	14211.2	16335.2	178261.1	19434.8	21051.5	21208.8

Source : By curtesy of the Accountant, Aligarh Zila Sahakari Bank Limited, Aligarh.

in 1985-86, Rs. 3841.5 thousand in 1986-87 and Rs. 3961.0 thousand in 1987-88, which shows that the servicing cost have risen about 2.5 times within a period of nine years. Other expenses have also increased about 9.5 times within a period of nine years. It is also revealed about from the above table that the subsidies and grants received by the bank have not played an important role. Other receipts have increased about 2.3 times during 1979-80 to 1986-87. The figures of profit and loss indicate that there is cycle of about five years. During the six years from 1980-81 to 1985-86 the bank earned profits continuously. In the next two years from 1986-87 to 1987-88 the bank suffered losses. The profit earned during the year 1980-81 was Rs. 505.4 thousand and also earned profit during the year 1985-86 as Rs. 13848.1 thousand. The same was recorded in the history of Aligarh Zila Sahakari Bank Limited. The bank was loss during 1986-87 to 1987-88 because, the income was less while the expenditure was more. In order to remove this deficiency the bank should decrease in feature, service cost and other expenditure so that profit may increase.

### Audit and Supervision:

Audit is an examination of accounts of business concern with a view to ascertaining the true state of its affairs. In the words of Dicksee, "An audit is the examination of the accounts of a business and certifying their accuracy".<sup>1</sup>

Auditing is instituted with a view to finding out the correctness of recorded accounts. Entries made in the books of accounts are verified with original documents evidencing the transactions. The verification is done in such a way as to ascertain if the entries reflect the transactions as they are "Auditing may, thus be defined as a thorough and critical examination of accounts of an institution with the original documents relating thereto by an independent agency in such a manner as to ascertain if they exhibit a true and correct view of the state of its affairs".<sup>2</sup> In short, audit is an independent scrutiny of the accounts with a view to finding out their correctness.

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1. 7th Indian Cooperative Congress (Feb. 5-7, 1976) Rationalisation of Cooperative Structure (Background papers) National Cooperative Union of India, New Delhi, p. 10.
  2. Krishnaswami, O.R.: Cooperative Audit, National Council for Cooperative Training 34, South Patel Nagar, New Delhi, 1980, p. 3.



For an independent and impartial audit of cooperative societies in the State, the Cooperative Societies and Panchayats Audit Organisation was established on April 6, 1953 under the Administrative Control of the Finance Department.<sup>1</sup> The Chief Audit Officer, Cooperative Societies and Panchayats Uttar Pradesh, was appointed administrative officer of the organisation.

According to Rule 205 of U.P. Cooperative Societies Rules 1968, the annual and other returns including the statement of bad debts, relevant accounts, documents, papers, securities, cash and other properties shall be made available by the bank to the Registrar or any other person conducting audit under section 64 of U.P. Cooperative Societies Act, 1965 and when required for checking and verification.

The organisation has its at Lucknow. At the Head Office, there is the Chief Audit Officer assisted by the Joint Chief Audit Officer and the Deputy Chief Audit Officer. For a complete and efficient administrative control, the state has been divided into twelve regions and each region has been subdivided into viable units, generally on the basis of districts. The Aligarh district comes under the

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1. Vide U.P. Govt. Order No. S-A 299/10-300 (22) 1950, dated April 6, 1953.

Agra region with four other districts namely, Agra, Etah, Mathura, and Mainpuri.

The responsibility for the administrative control in the district rests with the District Audit Officer who is assisted by Senior Auditors and Auditors.

District Audit officer has to arrange for the completion of the audit within a prescribed period and is also responsible for the fixation and realisation of audit fee in the district. The following is the structure of audit organisation in the district:

District level	District Audit Officer
	Senior Auditors
	Auditors
Field Staff	Senior Auditors (Grade I)
	Senior Auditors (Grade II)
	Auditors
Office Staff	Senior Clerks
	Junior Clerks

Annual audit of Aligarh Zila Sahakari Bank Limited, Aligarh is a statutory obligation under the Cooperative Societies Act. Various Departmental schemes are being implemented through the cooperative agency and crores of rupees are being made available to the cooperative institutions in the form of investment in their share capital, loans and subsidies etc. Therefore, proper and timely audit is absolutely necessary to watch the interest of the government and member shareholders towards chances of embezzlements, defalcations and misuse of funds in the bank.

The statutory audit, according to the MacLagan Committee, should extend somewhat beyond the basic requirements of the Act and should embrace an enquiry into all the circumstances which determine the general position of a society. However, the committee deprecated the creation of a big department on a large scale, but recommended that the Registrar should prescribe a form of audit report giving in sufficient details, the points on which enquiry should be made at the time of audit, but it should set its face against the use of such a form as means of collecting elaborate statistics rather than testing the real condition of societies. After checking all the entries in the books

of a cooperative society, audit report should be sent to the Registrar. As far as the liabilities of the auditor are concerned, the committee recommended that it would be the same as that attached to commercial auditors.

The question of improving the audit of cooperative societies arose at an early stage in the Indian Cooperative Movement. The prevailing conditions were extremely unsatisfactory, as the societies usually had great difficulty in finding such persons, among their members, who are sufficiently competent to carry out the expert scrutiny which auditors have to perform. The audited accounts help the members to know about the real financial position and any real fraud or error is checked at an early stage. In this manner, it helps to prevent the funds of the society from being misused or misappropriated. As the central banks advance loans to the cooperative societies, they are keen to know how the money has been spent. The auditor report is the most authenticated testimony to the maintenance of the correct accounts. For the efficient control of the finances and the successful functioning of the society, the managing committee as well as the members of the society must ensure financial stability and maintenance of correct accounts which would be possible only if the accounts

are audited by experienced staff suitably trained for cooperative audit. The Board of Directors of central banks should be fully satisfied with the correctness of the accounts.

A perusal of the foregoing description of management of financial resources in Aligarh Zila Sahakari Bank Limited, Aligarh enables to conclude that consciousness about cost reduction is conspicuous by its absence in the management and operations of the bank. Independencies in the policy of financing, poor scales of finance towards meeting full requirements of the members and lack of technical staff have been the reasons for low productivity and inefficiency in the management of the bank. Cost reduction requires an organised and conscious effort on the part of all concerned and can only be achieved by a proper planning of different steps, earnest implementation and careful watch from the very start of financial operations.

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Appendix A

## Cooperative Credit Structure

## Agricultural Credit Societies

## Non-agricultural Credit Societies

Short and  
Medium-term

Long-term

State Cooperative  
BanksState Industrial  
Cooperative BanksCooperative  
BanksCentral Land  
Mortgage/Deve-  
lopment Banks

Central Industrial Bank

Central  
Cooperative  
BankPrimary Land  
Mortgage/Deve-  
lopment Banks

Central Cooperative Bank

Primary  
Agricultural  
Credit  
Societies

Gain Banks

Primary Non-agricultural Credit  
Societies

Of Which

Employee's  
Cooperative  
Credit societiesUrban Cooperative  
Banks